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SIPDIS

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SUBJECT: SINO-TURKISH ECONOMIC RELATIONS STARTING TO THAW  
AFTER SUMMER FREEZE

Classified By: Economic Minister Counselor William Weinstein. Reasons 1  
.4 (b, d)

11. (C) Summary: Sino-Turkish economic relations are on the mend following Turkish State Minister Caglayan's visit to Beijing in late August to repair bilateral relations, but Turkish diplomats in Beijing predicted it might take another year for these relations to fully recover. Trade dropped and investment from China to Turkey all but stopped after Turkish Prime Minister Erdogan characterized the early July ethnic violence in Urumqi as "a kind of genocide." The Turkish government is working to attract Chinese investment into Turkey to counterbalance a large bilateral trade deficit. Turkish President Gul's June 25 visit to China led to half a dozen new economic agreements, including loans from the Import-Export Bank of China and a Memorandum of Understanding on energy cooperation, but these have yet to be implemented. End summary.

12. (C) Embassy EconOffs met September 3 with Turkish Counselor for Economic Affairs Ozlem Nudrali and Second Secretary Polat Ogun to discuss Sino-Turkish economic relations. Ogun said that trade between the two countries had slowed significantly since early August, when Turkish Prime Minister Erdogan publicly denounced the Chinese Government's actions in Xinjiang as "a kind of genocide." Ogun described the icing of economic relations as quite dramatic. Nudrali said that since Erdogan's statement, attracting PRC investment to Turkey had been virtually impossible. However, she added, Chinese companies resumed contacting the Turkish Embassy to discuss investment opportunities once the issue was resolved by the late August visit to China of State Minister and Erdogan special envoy Zafer Caglayan.

13. (C) Chinese trade with and investment in Turkey is dwarfed by other European countries and the United States, according to Ogun, so Turkish investors are treated as "middle class" rather than "high class" investors. He said Turkish companies mostly engage in simple trade with China, i.e., trade that involves limited investment. Production of durable goods such as washing machines makes up the bulk of Turkish investments in China, Ogun said. Nudrali noted that due to the small scale of Turkish investment in China, the Turkish Embassy does not get involved in many investment disputes and leaves much of the lobbying to such entities as the European Union Chamber of Commerce, of which many Turkish companies are members. Turkey's major chamber of commerce does not have a chapter in China, she said.

14. (SBU) Ogun said Turkey has implemented new policies and programs to attract Chinese investment. The Turkish Government has promised "privileged economic zones," where Turkey would provide property and preferential tax treatment to Chinese investors, he said. Ogun also cited a Turkey-EU customs agreement that he believed would give Chinese

investors an "in" to the European market.

¶5. (C) Nudrali admitted that more than half of Chinese companies participating in trade and investment missions to Turkey are state-owned enterprises (SOEs). She said she sees little difference in how SOEs and private companies respond to political signals from Beijing, noting that private companies are also unwilling to invest in Turkey during times of bilateral stress. She praised the Chinese Government, however, for speaking in measured tones during the "genocide" flack, urging Chinese citizens not to let the situation get out of hand.

¶6. (C) Nudrali and Ogun had little knowledge of Turkey's past use of WTO Section 421 safeguard measures against China. EconOffs asked about the PRC's reaction to Turkey's implementation of Section 421, but the Nudrali and Ogun were only vaguely aware that Turkey had taken such measures.

¶7. (U) Sino-Turkish trade in 2008 totaled USD 17 billion, USD 15.6 billion of which comprised exports from China to Turkey. In 2008, Turkish FDI in China totaled USD 7.3 million, while Chinese FDI in Turkey totaled USD 5.3 million.  
HUNTSMAN